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As I see it

WILL STIFFER FINANCING TERMS SHRINK THE MARKET ?

THE cost of building a typical residence has increased by 25.5 percent since 1950. During this same period the prices of land suitable for residential building have increased by 115 percent. The selling prices of existing homes have advanced by 16 percent. Mortgage interest rates have gone up 13.5 percent. Real estate taxes have advanced by 90.2 percent. This necessarily has increased the monthly cost of housing, either owned or rented, to the American public.

Does this mean that the average American family cannot afford to live in as adequate a home as it could in 1950? In view of the rather rapid change in the cost of financing in the last few months, the effect of these increases is particularly disturbing to those sections of our economy that have accepted the responsibility for creating new housing accommodations.

There is no question that the cost of housing has advanced faster and further than that of other commodities and services. In the past 100 years building material prices have shown a constant upward trend in relationship to all commodity prices. If we assume that 100 years ago a dollar would buy 100¢ worth, today it will buy 13.6¢ worth of building materials in contrast with 35.4¢ of all commodities. Thus building materials have increased almost 3½ times as much as all commodities.

If we make our comparison on the purchasing power of a dollar for goods and services in comparison with actual houses, we can go back in our figures only to 1913. If we assume that a dollar in 1913 would buy 100¢ worth of the typical goods and services used by the average family, the dollar today will buy 34¢ worth, in contrast with the 1913 dollars, 31¢ worth in purchasing power for existing residential buildings, and 19¢ worth for new residential buildings.

Any increase in the monthly cost of housing will tend to reduce the market, just as any decrease in the monthly cost of housing would tend to increase the market. The increases we are having at the present time, however, do not necessarily mean that the average family must restrict its housing needs. Fortunately, in the United States in most of our manufacturing industries we

have employed a very large amount of capital per worker. This has enabled us to increase constantly, output per man hour, and with automation the output per hour will increase much further. This will tend to increase the supply of goods and services more rapidly than the number of man hours, making it possible for the average individual to purchase a larger amount of goods and services than he could acquire formerly.

In the field of housing, this is probably shown most graphically by a study which we made in 1955. In this report we expressed the cost of our standard six-room frame house in the number of weeks required of earnings of an average production worker in manufacturing. The study started in 1913 and at that time it required the equivalent of 502 weeks of earnings to equal the cost of the house. This is equivalent to the full earnings of almost 10 years and was a heavier house load than the average family could afford to undertake. In 1950 this had been cut to 302 weeks of work. Thus the earnings of the average employed production worker had increased considerably faster than the replacement cost of the house. At the present time, on the same basis, the house could be paid for with the equivalent of 263 weeks of earnings. This is a reduction of 13 percent since 1950, or of 47.5 percent since 1913, in spite of the fact that the average work week is 18 percent shorter.

Income tax payments first became a problem for the average production worker in 1939. In 1950, however, a worker with no dependents had to work 362 weeks in order to acquire the cost of the house after the deductions for his income tax. This has now dropped to 324 weeks, or a drop since 1950 in the actual cost of housing expressed in earnings of 11 percent. An employed worker in 1950 with three dependents had to work 322 weeks in order to equal the after-tax income necessary to buy the house. This has now declined to 294 weeks, or a drop in the 9-year period of 9 percent, or 1 percent per year.

The consumer spends anywhere from below 15 percent of his income to over 40 percent on housing. This information is available from two sources: the FHA experience chart based on the mortgages insured under Section 203 of owner-occupied, single-family homes and the 1956 National Housing Inventory.

The FHA experience table opposite shows a wide diversity of consumer taste for housing.

The fact that many people pay less than 20 percent of their income for housing does not mean, necessarily, that these people could be persuaded to increase their housing expenditures. In a free enterprise system the consumer should always be free to choose how he will spend his income. To many persons, living in dilapidated houses, the ownership of a sleek automobile is more important, in their opinion, than better living quarters, and the ownership of a television may be considered more important than a telephone.

PROSPECTIVE MONTHLY HOUSING EXPENSE* RELATED
TO MORTGAGORS' EFFECTIVE† MONTHLY INCOME
(National Average - All Jurisdictions, 1953, 1954 and 1955 Experience Average)

Effective Monthly Income of Mortgagors	25% of Mortgagors Spent Less Than	50% of Mortgagors Spent Less Than	75% of Mortgagors Spent Less Than	90% of Mortgagors Spent Less Than
$250	30%	32%	35%	37%
300	27	28	31	34
350	24	25	29	31
400	21	23	27	29
450	20	22	25	27
500	19	20	24	26
550	18	19	23	25
600	17	18	22	24
650	16	17	21	23
700	15	17	20	22
750	15	16	20	22
800	15	16	19	21
850	14	16	19	21
900	14	15	18	20
950	13	15	18	20

*Housing expense is payment to principal, interest, FHA insurance premium, hazard insurance, taxes and special assessments, monthly maintenance cost, operating expenses including utilities and ground rent and miscellaneous.

†Income after Federal Withholding Tax.

This table will show that there are many families in the United States with incomes of more than $500 a month after taxes who are spending less than 20 percent of their income for housing, and, in the upper income brackets, more than 90 percent of all families are spending less than 20 percent and more than 50 percent of all families are spending less than 15 percent.

Even in the lower income groups there are many persons spending less than 20 percent. A book just recently published by Robert Moore Fisher, entitled Twenty Years of Public Housing, states, "Conservative estimates indicate, however, that most occupants of reporting substandard housing inside standard metropolitan areas might have afforded to pay more for shelter in 1950 than they did. The Census data show that two-thirds of all primary families and individuals who owned inadequate dwellings might have spent more for housing without exceeding a value-income ratio of 2.0. Almost three-fifths of all primary families and individuals who rented substandard units might have paid more for rent without exceeding a rent-income ratio of 20 percent. In fact, nearly one-third of the homeowners and one-fifth of the renters might

have, at least, doubled their outlays for housing without exceeding reasonable budgetary limits. . . Despite the superior quality of public-housing quarters, then, some households, obviously, might hesitate to move into the projects. Aside from questions of eligibility, at least 19 percent of all primary families and individuals living in substandard units in 1950 would have been required to double their rent outlays in public housing. Approximately 40 percent would have been obliged to pay at least one and one-half times the rents they had been accustomed to paying."

Miles Colean, in the October issue of House and Home, reached a somewhat similar conclusion, "Judging by the rental housing data developed for the 1956 housing inventory, a very large number of apartments are occupied by renters who could afford better accommodations. At least 51 percent of the renters with incomes between $2,000 and $6,000 a year paid less than 20 percent of their incomes for rent (including utilities) and at least 23 percent actually paid less than 15 percent."

Further increases in the real purchasing power of wages, due to the great productivity of our free enterprise system, will offset some of the increases in cost, due to higher replacement costs and higher interest rates, as these increases in purchasing power have offset increases in the monthly cost of housing in the past. A substantial change in consumer budgets will be required, however, if those paying less than 20 percent of their budget are to pay more for newer apartments. There will be a large increase in the number of young couples wanting to rent in the next few years and there will also be a large percentage increase in the number of persons over 65, many of them looking for luxury units. If this demand increases faster than units can be supplied, rents will move automatically upward, compelling in many cases, a reorientation of the various items in the consumer budget. Experience in the past has shown that these budget adjustments are sometimes painful, but are made when necessary.

If the levels of the 1920's are considered normal, residential rents in relationship to the other elements in the cost of living are still the greatest bargain in the consumer price index. I believe that in view of the increased demand for rental units, which is certain to develop within the next few years, average rent levels will increase considerably further.

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